Ch 1

Monday, August 24, 2020

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ION TO MICROECONOMICS

Economics is the science dealing with maximization of profits and minimization of losses. Roblem of chaic

Economics refer to the study of economic problems arising out the fact that humans have unlimited wants, there are limited resources and resources have alternative uses.

→ Study of Economics is divided into two branches:

o Micro economics (lass)

Macro economics

| SN | Micro Economics | Macro Economics | |
|----|---------------------------------------|--------------------------------------|--|
| 1 | Micro economics studies the | Macro economics studies the | |
| | behaviour o <mark>f individual</mark> | behaviour of the economy as a whole. | |
| | economic units like individual | | |
| | consumer or producer. | | |
| 2 | Study of micro economics | Study of macro economics assumes | |
| | assumes that macro variables | that micro variables remain | |
| | remain constant. | constant. | |
| 3 | Tools- Demand and Supply | Tools- Aggregate Demand and | |
| | (Purchase) (Sale) | Aggregate Supply | |
| 4 | Example- Individual Income | Example- National Income | |

→ <u>Problem of Choice</u> = <u>Economic Problem</u> = <u>Problem of allocation of scarce</u> resources to alternative uses.

Example: How to spend the limited income to purchase different type of goods and services so that satisfaction is maximum.

Problem of Choice is root cause of study of economics.



→ Cause of economic problems are:

- Unlimited Human Wants
- Limited Economic Resources
- o Alternative uses of Resources
- → Economy refers to a system spread over a particular area which shows economic activities of that area. E.g. Indian ECONOMY.

Ly purchase and sale of goods and services

types of Economic Problem



→ Central Problems of an Economy/Problem of Resource allocation

Problem of allocation of scarce resources to alternative uses

What to produce?

Relates to what / quantity of goods

Example: A farmer has
100 acres of land. He can
produce wheat, rice, jute
maize on that land. He
needs to decide what
goods and in what
quantity should he
produce.

How to produce?

Relates to which technique of production (Labour intensive or Capital Intensive)

<u>Labour intensive:</u> More use of Labour Advantage<mark>: Cheap</mark>

Disadvantage<mark>: Time consuming</mark>

machine

<u>Capital intensive:</u> More use of machines Advantage: <u>Time saving</u> Disadvantage: <u>Costly</u>

For whom to produce?

Relates to distribution of income (Factoral distribution / Inter-personal distribution)

Inter personal distribution refers to whether to produce for richer or poorer sections of the society.

Factoral distribution refers to distribution of Rent, wages, Interest and Profit

→ <u>Different types of Economy</u>

, Government

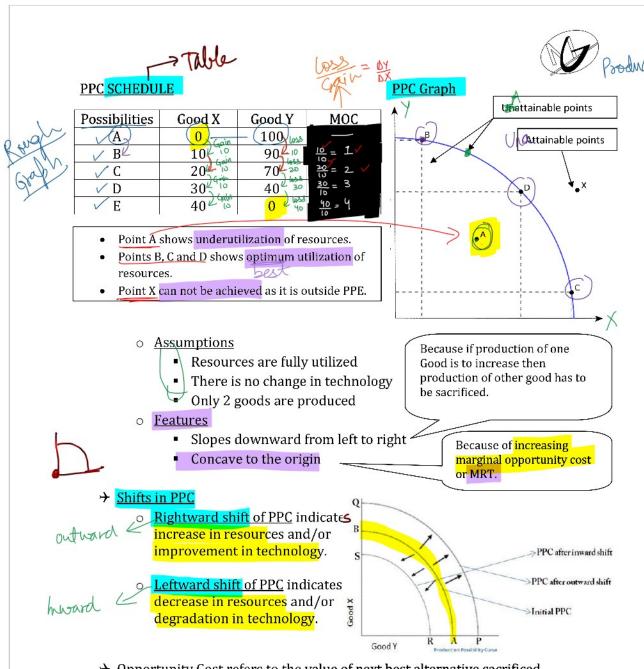
| | | and the second s |
|--------------------------------------|---|--|
| Market Economy/Capitalist Economy | Centrally Planned Economy/Socialist Economy | (Maya) |
| Producers are free to decide | Decisions of 'what, how and | Decisions of 'what, how |
| ' <u>what, how</u> and for whom to | for whom to produce' are | and for whom to produce' |
| produce'. Lis based | taken by central authority | are taken on basis of |
| Demand and supply forces | CAIST. | market forces + central |
| i <u>n mar</u> ket. | 70003 | authority |
| The goal is profit | The goal is to maximize | The goal is to have balance |
| maximization. | social welfare. | between pr r ofit |
| | | maximization and social |
| | | welfare |
| Example: USA, 6 (L) | Example: North Korea | Example: India |



Production Possibility Curve (PPC)

PPC is a curve showing possibilities of production of two goods with given resources and technology.

Also known as Production Possibility Frontier or Transformation Line or Transformation Curve.



→ Opportunity Cost refers to the value of next best alternative sacrificed.



Also known as Marginal Rate of Transformation. (MRT)

It is defined as the additional units of a good which have to be sacrificed to produce an additional unit of the other good.

It is expressed as $\Delta Y/\Delta X = Loss$ of output for an additional unit of Good X. \propto It refers to the slope of PPC.

